

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

## **Financial Statements**

### **West Michigan Community Mental Health System**

*September 30, 2007*



West Michigan Community Mental Health System  
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September 30, 2007

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## **INDEPENDENT AUDITOR'S REPORT**

West Michigan Community Mental Health System  
Ludington, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of West Michigan Community Mental Health System (the Authority), as of and for the year ended September 30, 2007, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Authority as of September 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 21, 2008 on our consideration of the Authority's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The other supplemental financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Roslund, Prestage & Company, P.C." The script is cursive and fluid, with the company name written in a single line.

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

February 21, 2008

# ***MANAGEMENT'S DISCUSSION AND ANALYSIS***



West Michigan Community Mental Health System  
Financial Statements for the Fiscal Year Ended September 30, 2007  
Management's Discussion and Analysis

The management of West Michigan Community Mental Health System (WMCMHS) presents the following discussion and analysis of the financial activities during the fiscal year 2006/2007. This discussion and analysis is provided to introduce the basic financial statements of the past year and to provide the reader information to help assess whether the financial position has improved or deteriorated as a result of the year's operation. Please read this section in conjunction with the auditor's report, our financial statements, notes to the financial statements, and supplemental information taken as a whole to get a comprehensive understanding of WMCMHS' financial position.

WMCMHS, under an affiliation agreement with Northern Lakes Community Mental Health Authority became a member of the Northwest Community Mental Health Affiliation serving a nine county region. Through this affiliation WMCMHS receives Medicaid funding from Northern Lakes, the regional Pre-paid Inpatient Health Plan (PIHP) of the affiliation that holds the Medicaid contract with MDCH. The significance of this funding arrangement and the impact on the provision of services to the residents of Lake, Mason and Oceana Counties has little noticeable impact on our service delivery system. WMCMHS continues to receive 29% of our revenue directly from MDCH and other sources for non-Medicaid services provided to Lake, Mason, and Oceana county residents.

Basic Financial Statement

**Government – wide financial statements** consist of a Statement of Net Assets which shows the difference between assets and liabilities; and a Statement of Activities which shows revenues and expenses and the change in net assets from the previous year. Information presented in these statements is on the full accrual basis of accounting.

**Fund financial statements** report information using the modified accrual basis of accounting. They offer a series of statements that focus on the major governmental funds. The general fund statements identify activities of our day-to-day operations. The proprietary fund identifies funds set aside in our Internal Service Fund for risk management. Reconciliations are also offered between the Fund Financial Statements and the Government-wide Statements.

West Michigan Community Mental Health System  
Financial Statements for the Fiscal Year Ended September 30, 2007  
Management's Discussion and Analysis

Comparison with Prior Year

West Michigan CMH System's total net assets show an increase for fiscal year 2006/2007 as compared to the prior year from \$4,523,211 to \$4,754,877. Total assets decreased by 7.0 percent and total liabilities decreased by 24.8 percent. Unreserved net assets changed from \$3,634,074 to \$3,894,063. This is a 5.1 percent increase of \$259,989 to those funds able to finance general operations without restrictions.

**Net Assets**

	<b>Governmental Activities</b>	
	<b>2007</b>	<b>2006</b>
Current and Other Assets	6,364,908	7,011,854
Capital Assets	714,427	602,580
Total Assets	7,079,335	7,614,434
Current Liabilities	1,433,736	2,235,898
Non-Current Liabilities	890,722	855,325
Total Liabilities	2,324,458	3,091,223
Net Assets:		
Invested in capital assets, net of debt	714,427	602,580
Restricted	146,387	286,557
Unrestricted (deficit)	3,894,063	3,634,074
Total Net Assets	4,754,877	4,523,211

Analysis of Overall Financial Position

WMCMHS continues to improve our financial standing with an increase of \$442,019 to net assets. Medicaid revenues from our PHIP increased 5.8 percent as a result of negotiations moving WMCMHS to the same rate throughout the nine county region. DCH General Fund, Adult Benefit Waiver and MI-Child revenues changed by only 8 percent from FY 06. The decrease was largely due to a 236 Transfer of \$300,000. The following table illustrates net asset activity compared with last fiscal year.



West Michigan Community Mental Health System  
Financial Statements for the Fiscal Year Ended September 30, 2007  
Management's Discussion and Analysis

**Changes in Net Assets**

	<b>Governmental Activities</b>	
	<b>2007</b>	<b>2006</b>
<b>Revenues</b>		
DCH	3,275,807	3,546,503
Medicaid	11,642,040	11,000,799
Grant, Contracts & Other Revenues	723,488	596,571
Local	878,612	812,336
<b>Total Revenues</b>	<b>16,519,947</b>	<b>15,956,209</b>
<b>Expense</b>		
Personnel	8,730,546	7,801,617
Capital Outlay	259,534	413,205
Other Expenses	7,398,349	7,558,892
Debt Payments - Principal	9,156	8,381
Debt Payments - Interest	13,103	13,087
<b>Total Expense</b>	<b>16,410,688</b>	<b>15,795,182</b>
<b>Revenue Over/(Under) Expense</b>	<b>109,259</b>	<b>161,027</b>
<b>Other Financing Sources (Uses)</b>		
Proceeds From Loans	-	131,000
Proceeds From Sale of Assets	30,900	34,750
Transfers In From Internal Service Fund	318,069	680,404
Other Transfers In (Out)	-	(621,204)
<b>Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses</b>	<b>458,228</b>	<b>385,977</b>
<b>Prior Period Adjustment</b>	<b>(16,209)</b>	<b>(1,453,578)</b>
<b>Increase (decrease) in Net Assets</b>	<b>442,019</b>	<b>(1,067,601)</b>

**Capital Assets and Long-Term Debt**

Capital Assets increased by \$111,847 as the result of our on-going replacement of computer equipment and vehicles in order to maintain reliable equipment. There was no significant change to long-term debt during the 2007 fiscal year.

West Michigan Community Mental Health System  
Financial Statements for the Fiscal Year Ended September 30, 2007  
Management's Discussion and Analysis

Analysis of Transactions in Individual Funds

Due to the abatement calculation methodology, there was a prior period adjustment of \$16,209 to the Internal Service Fund to reflect the final cost settlement for FY06 with the Department of Community Health. This brought the beginning balance to \$302,766 for FY07. The majority of the ISF was used in FY07 leaving a balance of only \$193.

Analysis of Significant Budget Variations

Amendments to fiscal year 2006/2007 budget indicate only minor changes in funding and shifts of expense categories. The original budget of \$17,075,521 was decreased to \$17,035,622. The amendment consisted of several line item variations. The most significant changes were decreasing contractual services for anticipated residential placements that did not occur and increasing the contractual psychiatrist budget for coverage until the position was filled.

Currently Known Information Effecting the Future

Building Lease Issue

West Michigan CMH System is in the midst of working with the counties and MDCH to proactively resolve a potential audit issue around disallowed payments for the building leases that was identified in other counties.

Funding

The State of Michigan continues to be faced with a budget shortfall. The State's financial difficulties are compounded by high unemployment rates and federal deficits reflecting the weak economic condition throughout the country. These factors all present potential future funding issues for community mental health and specialty supports and services, which makes the near term outlook very uncertain. Revenues from the State are expected to be flat at best with no inflationary adjustments, while increases in service demands are expected in part as a result of economic factors. Another funding element of note is the State has undertaken the process to re-base the rates for Medicaid capitation payments. The rate changes are to be effective for the fiscal year beginning October 1, 2007. WMCMHS anticipates an increase in Medicaid funding from its PIHP as it continues to reach regional rate equalization. However, General Fund allocation is less certain due to the state's poor economic condition. While the financial position of the Authority is currently healthy, should significant reductions occur in our funding, WMCMHS management will analyze the services delivered, looking at alternatives where appropriate.

***GOVERNMENT-WIDE  
FINANCIAL STATEMENTS***



WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2007 AND 2006

	Governmental Activities	
	2007	2006
<b>Assets</b>		
Current assets		
Cash and cash equivalents - unrestricted	\$5,334,413	\$6,207,900
Due from other governmental units	359,507	215,816
Prepaid expenses	46,778	53,258
Total current assets	5,740,698	6,476,974
Noncurrent assets		
Restricted investments	624,209	534,880
Capital assets - depreciable, net	714,427	602,580
Total noncurrent assets	1,338,636	1,137,460
Total assets	7,079,335	7,614,434
<b>Liabilities</b>		
Current liabilities		
Accounts payable	805,157	888,431
Deferred revenue	149,789	169,143
Due to other governmental units	284,056	842,040
Accrued liabilities	39,906	133,695
Retirement payable	18,206	76,999
Accrued wages and other payroll liabilities	126,941	116,349
Current portion of notes payable	9,681	9,241
Noncurrent liabilities		
Notes payable	249,045	258,641
Compensated absences	641,677	596,684
Total liabilities	2,324,457	3,091,223
<b>Net assets</b>		
Invested in capital assets	714,427	602,580
Restricted for:		
Risk management	193	286,557
Specialized health	146,194	146,194
Unrestricted	3,894,063	3,487,880
Total net assets	\$4,754,877	\$4,523,211

WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2007, WITH COMPARATIVE DATA

Functions	Program Revenues			Net (Expense) Revenue and Changes Net Assets	2006
	Expenses	Charges for Services	Operating Grants and Contributions		
Governmental activities					
Health & welfare - mental health	<u>\$16,311,862</u>	<u>\$11,851,094</u>	<u>4,324,297</u>	(\$136,471)	\$59,458
General revenues					
Unrestricted investment earnings				344,557	281,652
Restricted investment earnings				15,496	16,209
Gain on disposal of capital assets				<u>8,084</u>	<u>5,380</u>
Total general revenues and contributions				231,666	362,699
Transfers in (out)				<u>-</u>	<u>(621,204)</u>
Change in net assets				231,666	(258,505)
Net assets - beginning of year				4,523,211	6,235,294
Prior period adjustment				<u>-</u>	<u>(1,453,578)</u>
Net assets - end of year				<u>\$4,754,877</u>	<u>\$4,523,211</u>

## ***FUND FINANCIAL STATEMENTS***



WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2007 AND 2006

	General Fund	
	2007	2006
<b>Assets</b>		
Cash and cash equivalents - unrestricted	\$5,334,413	\$6,207,900
Cash and cash equivalents - restricted	624,209	534,880
Due from other governmental units	359,507	215,816
Prepaid expenses	46,778	53,258
Total assets	<u>\$6,364,908</u>	<u>\$7,011,854</u>
<b>Liabilities</b>		
Accounts payable	\$805,157	\$888,431
Deferred revenue	149,789	169,143
Due to other governmental units	284,056	842,040
Due to other funds	193	286,557
Accrued liabilities	39,906	133,695
Retirement payable	18,206	76,999
Accrued wages and other payroll liabilities	126,941	116,349
Total liabilities	<u>1,424,247</u>	<u>2,513,214</u>
<b>Fund balance</b>		
Reserved for prepaid expenses	46,778	53,258
Unreserved and undesignated	<u>4,893,883</u>	<u>4,445,382</u>
Total fund balance	<u>4,940,661</u>	<u>4,498,640</u>
Total liabilities and fund balance	<u>\$6,364,908</u>	<u>\$7,011,854</u>

WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM  
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007

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Total fund balance - governmental funds	\$4,940,661
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: Capital assets	1,624,487
Deduct: Accumulated depreciation	(910,060)

An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add: Net assets of governmental activities accounted for in the internal service fund	193
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Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Deduct: Loans payable	(258,726)
Deduct: Compensated absences	(641,677)

Net assets of governmental activities	<u><u>\$4,754,877</u></u>
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WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007 AND 2006

Revenues	General Fund	
	2007	2006
State grants		
Department of community health contract	\$3,015,126	\$3,270,756
Adult benefit waiver	250,514	263,365
MI child	10,167	12,382
Title XX	4,047	4,047
RICC	3,670	3,416
Supportive housing	53,272	45,361
Emergency shelter	3,862	7,714
Grants - categorical	75,914	75,068
Other grants	67,239	30,262
Total state grants	3,483,812	3,712,371
Federal grants		
Wraparound grant	75,000	77,829
Block grant - DBT	56,250	75,000
Strong families / safe children	29,960	34,370
TRBA	-	3,153
Block Grant - Family Enrichment	75,000	-
PAS / AAR grant	90,361	83,241
Total federal grants	326,571	273,593
Contributions - local units		
County appropriations	325,000	325,000
Charges for services		
Medicaid - subcontract with Northern Lakes CMH	11,538,834	10,840,403
Medicaid - other	103,206	160,396
Client and third party pay	209,055	205,684
Total charges for services	11,851,094	11,206,483
Interest and rents		
Interest	344,557	281,652
Other revenue		
Other	188,913	157,110
Total revenues	16,519,948	15,956,209

WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007 AND 2006

<b>Expenditures</b>	<b>General Fund</b>	
	<b>2007</b>	<b>2006</b>
Health & welfare - mental health		
Personnel costs	\$8,730,546	\$7,801,617
Operating expenditures	7,398,349	7,558,892
Capital outlay	259,534	413,205
Debt payments - principal	9,156	8,381
Debt payments - interest	13,103	13,087
	<u>16,410,688</u>	<u>15,795,182</u>
Total expenditures		
Revenues over (under) expenditures	109,260	161,027
Other financing sources (uses)		
Proceeds from loans	-	131,000
Proceeds from sale of assets	30,900	34,750
Transfers in from internal service fund	318,069	680,404
Other transfers in (out)	-	(621,204)
	<u>458,229</u>	<u>385,977</u>
Excess of revenues and other sources		
Over (under) expenditures and other uses	458,229	385,977
Fund balance, beginning of year	4,498,640	5,566,241
Prior period adjustment	(16,209)	(1,453,578)
Fund balance, end of eyar	<u>\$4,940,661</u>	<u>\$4,498,640</u>

WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2007

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Net change in fund balances - total governmental funds	\$458,229
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures and the proceeds from loans to finance capital purchases as revenue. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense and the loan proceeds are recorded as a liability.	
Add: Capital outlay	259,534
Deduct: Depreciation expense	(124,871)
Payment of principal on long-term debt is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	
Add: Principal paid on notes payable	9,156
Sales proceeds from the disposal of capital assets are recorded as revenue in the governmental funds. However, in the statement of activities they are netted against the basis in the disposed capital assets resulting in a gain or loss.	
Deduct: Proceeds from disposal of capital assets	(30,900)
Add: Gain on disposal of capital assets	8,084
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The net revenue (expense) attributable to those funds is reported with governmental activities.	
Add: Interest income from governmental internal service fund	15,496
Deduct: Transfer in from internal service fund	(318,069)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Deduct: Increase in accrual for compensated absences	(44,993)
Change in net assets of governmental activities	<u>\$231,666</u>

WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2007 AND 2006

	<u>Internal Service Fund</u>	
	<u>2007</u>	<u>2006</u>
Assets		
Due from other funds	<u>\$193</u>	<u>\$286,557</u>
Net assets		
Restricted for risk management	<u>193</u>	<u>286,557</u>
Total net assets	<u>\$193</u>	<u>\$286,557</u>

WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007 AND 2006

	Internal Service Fund	
	2007	2006
Non-operating revenues (expense)		
Interest income	\$15,496	\$16,209
Operating transfers		
Operating transfers in (out)	<u>(318,069)</u>	<u>(680,404)</u>
Change in net assets	(302,573)	(664,195)
Net assets, beginning of year	286,557	950,752
Prior period adjustment	<u>16,209</u>	<u>-</u>
Net assets, end of year	<u><u>\$193</u></u>	<u><u>\$286,557</u></u>

WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007 AND 2006

	Internal Service Fund	
	2007	2006
Cash flows from operating activities adjustments to reconcile net income to net cash provided by operating activities:		
(Increase) decrease in due from other funds	\$302,573	\$664,195
Net cash provided (used) from operating activities	302,573	664,195
Cash flows from noncapital financing activities		
Operating transfers in (out)	(318,069)	(680,404)
Cash flows from investing activities		
Interest income	15,496	16,209
Net change in cash and cash equivalents	-	-
Cash and cash equivalents, beginning of year	-	-
Cash and cash equivalents, end of year	-	-
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income (loss)	NA	NA

## ***NOTES TO THE FINANCIAL STATEMENTS***



## **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of West Michigan Community Mental Health System (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

### **Reporting Entity**

The Authority operates under the provisions of Act 258 – Public Acts of 1974 (the Michigan Mental Health Code), as amended. The Authority arranges for or provides supports and services for persons with developmental disability, adults with severe mental illness, children with serious emotional disturbance, and individuals with addictive disorder and substance abuse. These supports and services are made available to residents of the Counties of Lake, Oceana and Mason who meet eligibility and other criteria. As the community mental health services provider for these Counties, the Authority also serves to represent community members, assuring local access, organizing and integrating the provision of services, coordinating care, implementing public policy, ensuring interagency collaboration, and preserving public interest.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate, component units of the Authority. Based on the application of the criteria, the Authority does not contain any component units.

### **Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements.

*Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.



The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first and then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

### **Measurement Focus, Basis of Accounting and Basis of Presentation**

Government-Wide Financial Statements – The government-wide financial statements (statement of net assets and statement of activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Intergovernmental revenue, charges for services and other revenues associated with the current fiscal period are all considered susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Authority reports the following major governmental and proprietary funds:

Governmental Funds

General Fund – This fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Fund - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

## **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

## **Comparative Data**

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Authority's financial position and operations. Also, certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

## **Budgetary Data**

The Authority adopts an annual budget for the general fund. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

## **Cash and Cash Equivalents**

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

## **Receivables and Payables Between Funds**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to / from other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

## **Receivables**

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the State of Michigan.

## **Prepaid Expenses**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in both government-wide and fund financial statements.

## **Inventories**

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

## **Capital Assets**

Capital assets are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

The Authority does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as the projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

A salvage value equal to 15% of the original cost has been established for all vehicles.

Capital assets of the Authority are depreciated using the straight line method over the following estimated useful lives:

<b>Assets</b>	<b>Years</b>
Computers and Software	3 – 5
Vehicles	4
Equipment and Furnishings	5 – 20
Buildings	20

### **Restricted Assets**

Cash has been restricted for future payment of the compensated absences. These restricted assets are held in separate cash accounts with local financial institutions.

### **Inpatient / Residential Cost Liability**

The amount recorded for inpatient/residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Authority does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60-day period after year-end. Also, the actual cost may vary from the estimated amount due to reimbursements from third party payers that are applied to the total cost before the billings are sent to the Authority.

### **Deferred Revenue**

Deferred revenues arise when resources are received by the Authority before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

### **Net Assets and Fund Balances**

Restricted net assets shown in the government-wide financial statements will generally be different from amounts reported as reserved/designated fund balances in the governmental fund financial statements. This occurs because of differences in the measurement focus and basis of accounting used in the government-wide and fund financial statements and because of the use of funds to imply that restrictions exist.

#### **Fund Balances - Reserves and Designations**

Fund balances in the governmental fund financial statements are reported as reserved when a portion of fund balance is either:

- Not available for appropriation for expenditure, or
- Legally segregated for a specific future use.

Fund balances in the governmental fund financial statements may be reported as designated to reflect management's self-imposed limitations on the use of otherwise available financial resources. Designations represent management's intended use of resources and should reflect actual plans approved by them.

### Net Assets - Restrictions

Net assets in the government-wide financial statements are reported as restricted when constraints placed on net assets use is either:

- Externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or
- Imposed by law through constitutional provisions or enabling legislation.

### **MDCH Revenue**

#### General Fund Revenue

The Authority provides mental health services on behalf of the Michigan Department of Community Health (MDCH). Currently, the Authority contracts directly with the MDCH for General Fund revenues to support the services provided for priority population residing in Lake, Oceana and Mason Counties.

#### Medicaid Revenue

Also, the Authority contracts to receive Medicaid revenue through the Northwest CMH Affiliation for Medicaid-qualified services rendered to residents of Lake, Oceana and Mason Counties. The Northwest CMH Affiliation serves as the Pre-Paid Inpatient Health Plan (PIHP) for the area that includes Lake, Oceana and Mason Counties and they contract with the MDCH to administer these Medicaid funds.

## **NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **Budgetary Information**

Annual budgets are adopted at the functional level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

### **Excess of Expenditures over Appropriations**

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the current year the Authority incurred expenditures in excess of the amounts budgeted as shown on the budget comparison schedule in the back of this report as unfavorable variances.

### NOTE 3. DETAIL NOTES

#### Cash and Cash Equivalents

At September 30<sup>th</sup>, the carrying amount of the Authority's cash and cash equivalents are as follows:

<b>Cash and Cash Equivalents</b>	<b>2007</b>	<b>2006</b>
Petty Cash	\$390	\$565
Checking, Savings, & Money Market	1,240,335	537,470
Checking, Savings, & Money Market - Restricted	624,209	-
Certificates of Deposit	4,093,688	5,669,865
Municipal Investment Fund – Restricted	-	534,880
Totals	\$5,958,622	\$6,742,780

#### Restricted Cash and Cash Equivalents

The Authority has charged to the Department of Community Health the vested portion of compensated absences as of September 30<sup>th</sup>. The Authority holds, in a separate bank account, funds restricted for the payment of the compensated absences as they come due.

#### Custodial Credit Risk – Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. The Authority does not have a policy for custodial risk over deposits.

As of the end of the current fiscal year, \$5,933,444 of the Authority's \$6,233,444 bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized. Deposits which exceed FDIC insurance coverage limits are held at local banks. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

### Investments

State statutes authorize the Authority to invest surplus funds in obligations and certain repurchase agreements of the United States Treasury and related governmental agencies, commercial paper, banker's acceptances of the United States banks, obligations of the State of Michigan or any of its political subdivisions, and mutual funds composed entirely of the above investments. As of the end of the current year, the Authority had no such investments.

The Authority's investment policy complies with the State statutes and has no additional investment policies that would limit its investment choices.

### Interest Rate Risk – Investments

Under State statutes, investment in commercial paper is limited to maturities of not more than 270 days after the date of purchase. The Authority's investment policy complies with the State guidelines and seeks to minimize interest rate risk by investing primarily in short-term securities, liquid assets, money market funds, or similar investment pools and limiting average maturities.

The Authority's investment policy does not place any further limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

### Custodial Credit Risk – Investments

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Authority will not be able to recover the value of its investments that are in the possession of an outside party. The Authority requires all security transactions, including collateral for repurchase agreements, to be made on a cash basis or a delivery vs. payment basis. Securities may be held by a third party custodian and must be evidenced by safekeeping receipts.

The Authority does not have any additional policies for custodial credit risk over investments.

### Credit Risk - Investments

State statutes limit investments in commercial paper to be rated at the time of purchase within the three highest classifications established by not less than two standard rating services. Investments in obligations of the State of Michigan or its political subdivisions must be rated as investment grade by not less than one rating service. Investments in bonds, obligations, or repurchase agreements must be made with the U.S. Treasury and banker's acceptances with United States banks.



West Michigan Community Mental Health System  
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The Authority's investment policy limits investments to be made with prudent judgment as to the safety of the invested capital and probable outcome of income.

Concentration of Credit Risk

The Authority places no limit on the amount it may invest in any one issuer.

**Interfund Receivables and Payables**

Interfund receivables and payables as of September 30<sup>th</sup>, are as follows:

<b>Fund</b>	<b>Due From</b>	<b>Due To</b>
General Fund	-	\$193
Internal Service Fund	\$193	-

**Due from Other Governmental Units**

Due from other governmental units as of September 30<sup>th</sup>, consists of the following:

<b>Due From</b>	<b>2007</b>	<b>2006</b>
State of Michigan – Medicaid	-	\$90,633
State of Michigan – OBRA	\$19,180	24,054
State of Michigan – DBT System of Care	7,616	31,317
State of Michigan – Wraparound	21,000	28,061
State of Michigan – Respite	-	2,933
Family Enrichment	18,433	-
Co-occurring MI & SA	4,662	-
Family Psychology Education	60,480	-
Emergency Shelter Grant	3,609	4,138
Supportive Housing	23,057	9,791
Mason & Lake ISD	4,912	3,283
Children's Waiver	134,854	-
Fiscal Intermediary	55,692	-
Group Home Cost Settlement	6,012	-
Other	-	21,606
<b>Totals</b>	<b>\$359,507</b>	<b>\$215,816</b>

### Prepaid Expenses

Prepaid expenses represent payments for the following expenses that will benefit future periods:

<b>Prepaid Expenses</b>	<b>2007</b>	<b>2006</b>
Insurance	\$37,712	\$35,923
Dues	9,066	9,001
Rent	-	8,334
<b>Totals</b>	<b>\$46,778</b>	<b>\$53,258</b>

### Capital Assets

A summary of changes in capital assets is as follows:

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<i>Assets</i>				
Buildings	\$281,000	-	-	\$281,000
Equipment and Furnishings	389,205	\$7,861	-	397,066
Computers and Software	297,166	-	(\$75,015)	222,151
Vehicles	606,837	251,673	(134,240)	724,270
<b>Total Assets</b>	<b>1,574,208</b>	<b>259,534</b>	<b>(209,255)</b>	<b>1,624,487</b>
<i>Accumulated Depreciation</i>				
Buildings	(22,800)	(14,050)	-	(36,850)
Equipment and Furnishings	(332,695)	(14,752)	-	(347,447)
Computers and Software	(271,627)	(12,933)	72,345	(212,215)
Vehicles	(344,506)	(83,137)	114,094	(313,549)
<b>Total Accum. Depreciation</b>	<b>(971,628)</b>	<b>(124,872)</b>	<b>186,439</b>	<b>(910,061)</b>
<b>Totals</b>	<b>\$602,580</b>	<b>\$134,662</b>	<b>(\$22,816)</b>	<b>\$714,426</b>

Depreciation expense was charged to Health and Welfare – Mental Health Program.

### Deferred Revenue

The amount reported as deferred revenue represents the 5% carry forward allowance for the general fund portion of the Department of Community Health's authorization as follows:

Deferred Revenue	2007	2006
General Fund Carry Forward	\$149,789	\$169,143

### Due to Other Governmental Units

Due to other governmental units as of September 30<sup>th</sup> consist of the following:

Due to	2007	2006
State of Michigan – Inpatient/Residential	\$7,104	\$115,931
State of Michigan – DCH, Cost Settlement	-	115,543
Due to PHP	250,651	565,677
Community Inpatient & Crisis Residential	26,301	44,889
Totals	\$284,056	\$842,040

### Accrued Liabilities

This liability represents state and federal income taxes and other amounts withheld from paychecks prior to year end but not remitted until after year end.

### Accrued Wages and Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes and related liabilities.

### Retirement Payable

This liability represents amounts due to the retirement system based on wages earned as of September 30<sup>th</sup> of each year.

## Operating Leases

West Michigan Community Mental Health System has entered into various operating leases for the use of real and personal property. Operating leases do not give rise to property rights or lease obligations.

The following is a schedule of the future minimum lease payments required under the operating leases that have initial or remaining noncancelable lease terms as of September 30, 2007:

Year Ending September 30 <sup>th</sup>	Amount
2007	\$160,648
2008	116,146
2009	100,000
2010	100,000
2011	100,000
Thereafter	200,000

## Long-Term Debt

### Compensated Absences

The Authority's policy allows employee's to accumulate paid time off pay and to carry this accumulation into the future. The paid time off pay that was earned but not yet paid as of September 30, 2007 and 2006 was \$641,677 and \$596,684, respectively.

### Mortgage Payable

On July 13, 2004 the Authority borrowed \$150,000 to finance the purchase of a building. The terms of the loan call for 119 monthly payments of \$1,065 and a final payment of \$97,459 on July 13, 2014. The interest rate is stated at 5.8%.

### Mortgage Payable

On October 13, 2005 the Authority borrowed \$131,000 to finance the purchase of a building. The terms of the loan call for 59 monthly payments of \$790 and a final payment of \$107,997 on October 13, 2010. The interest rate is stated at 3.89%.

The changes in the long-term debt are as follows:

Description of Debt	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated Absences	\$596,684	\$44,993	-	\$641,677	-
Mortgage Payable	140,912	-	(\$4,614)	136,298	\$4,871
Mortgage Payable	126,970	-	(4,542)	122,428	4,810
Totals	\$864,566	\$44,993	(\$9,156)	\$900,403	\$9,681

West Michigan Community Mental Health System  
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The annual payment of principle and interest for the next five years (including interest of \$73,827) is as follows:

<b>Year Ended September 30<sup>th</sup>,</b>	<b>Principle and Interest Due</b>
2008	\$22,259
2009	22,259
2010	22,259
2011	120,403
2012	12,777
2013 – 2014	132,596

### Prior Period Adjustments

Prior period adjustments shown in the fund level financial statements in this report are due to the following:

<b>Adjustments to Fund Balance</b>	<b>2007</b>	<b>2006</b>
DCH Audit Settlement	(\$16,209)	(\$1,453,578)

Prior period adjustments shown in the government-wide level financial statements in this report are due to the following:

<b>Adjustments to Net Assets</b>	<b>2007</b>	<b>2006</b>
DCH Audit Settlement	-	(\$1,453,578)

Prior period adjustments shown in the proprietary fund financial statements in this report are due to the following:

<b>Adjustments to Internal Service Fund</b>	<b>2007</b>	<b>2006</b>
DCH Audit Settlement	\$16,209	-

### Restrictions and Reserves

A portion of the net assets has been restricted equal to the net amount available in the Internal Service Fund (risk management) which has been set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

In the fund level financial statements a portion of the fund balance at September 30<sup>th</sup> has been reserved equal to the amount of prepaid expenses, since prepaid expenses do not constitute "available spendable resources."

#### **NOTE 4. OTHER INFORMATION**

##### **Compliance Audits**

The Authority participates in various federal, state, and local grants for mental health programs. Certain provisions and allowable levels of participation and expenditures not qualifying for participation are subject to interpretation and adjustment by appropriate governmental agencies. State grants are subject to audit by responsible state agencies. Although these audits may result in some changes, they are not expected to have a material effect on the financial statements.

##### **Retirement Systems**

###### **MERS – Defined Benefit Plan**

The Authority is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS) administered by the State of Michigan. The system provides for the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty death allowance, duty death allowance, and post-retirement adjustments to plan members and their beneficiaries. The most recent period for which actuarial data was available was for the year ending December 31, 2006.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a)), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system.

That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

West Michigan Community Mental Health System  
Notes To The Financial Statements

The following table presents information required by GASB Statements Number 25 and 27.

<b>GASB 25 INFORMATION</b>	
<i>Actuarial Accrued Liability:</i>	
Retirees and Beneficiaries Currently Receiving Benefits	\$2,507,028
Terminated Employees Not Yet Receiving Benefits	133,075
Non-Vested Terminated Employees	31,158
Current Employees:	
Accumulated Employee Contributions Including Allocated Investment Income	114,917
Employer Financed	1,440,987
Total Actuarial Accrued Liability	\$4,227,165
Net Assets Available for Benefits at Actuarial Value (market value \$4,717,666)	4,652,581
Unfunded (Overfunded) Actuarial Accrued Liability	(\$425,416)
<b>GASB 27 INFORMATION</b>	
Fiscal Year Beginning	10/01/08
Annual Required Contributions (ARC)	\$0
Amortization Factor Used – Underfunded Liabilities (20 years)	0.069773
Amortization Factor Used – Underfunded Liabilities (10 years)	0.119963

Three year trend information as of December 31<sup>st</sup> is shown below:

Actuarial Valuation Date	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets	Unfunded (Over funded) AAL	Unfunded AAL as a Percentage of Annual payroll
12-31-04	\$3,911,807	\$4,467,634	(\$555,827)	0%
12-31-05	4,109,651	4,530,717	(421,066)	0%
12-31-06	4,227,165	4,652,581	(425,416)	0%

### MERS – Defined Contribution Plan

The Authority entered into an administrative service agreement between the International City Management Association Retirement Corporation (“ICMA”) and MERS on December 22, 1998. MERS has entered into an Alliance Agreement with ICMA providing for ICMA to serve as plan administrator for the defined contribution plans of municipalities participating in MERS.

The ICMA Retirement Trust (the "Trust") is a common law trust governed by an elected Board of Trustees for the commingled investments of retirement funds held by state and local governmental units for their employees. The ICMA acts as investment advisor to the Trust and has designed, and offers, a series of separate funds for the investment of plan assets.

In fiscal year 2006, this plan was reconfigured to contain both the defined contribution money purchase plan for which it had been originally designed as well as the money purchase plan in lieu of Social Security that previously was administered by VALIC.

This combined plan allows for one year vesting for all participating employees. Employer contributions are 9% of employee wages for the pension portion. All employees who contribute to the plan receive an additional employer match of 2% of employee wages. Employer contributions to the Trust for the year ended September 30, 2007 and 2006 were \$628,630 and \$590,638, respectively.

All employees can be eligible to receive Employer contributions (including nonelective contributions) under the Plan except the following: employees covered by social security, board of directors, substitute employees, leased employees, and individuals not on the payroll who are classified as independent contractors. There are no age requirements.

The Authority will make contributions to the Plan equal to 5 percent of compensation (not in excess of the Social Security Taxable Wage Base). The contributions to the plan for the year ended September 30, 2007 and 2006 were \$300,630 and \$275,484, respectively.

Additional information can be obtained by writing to: Executive Director, West Michigan Community Mental Health System, 920 Diana Street, Ludington, Michigan, 49431.



## **Risk Management**

The Authority is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Authority participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for auto and general liability, property and crime and vehicle physical damage coverage.

MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Authority is responsible for paying all losses, including damages, loss adjustment expenses and defense cost, or each occurrence that falls within the member's self-insured retention. If a covered loss exceeds the Authority's limits, all further payments for such loss are the sole obligation of the Authority. If for any reason the MMRMA's resources available to pay losses are depleted, the payment of all unpaid losses of the Authority is the sole obligation of the Authority.

The Authority's coverage limits include \$15,000,000 for liability, \$1,500,000 for vehicle physical damage, and approximately \$3,500,000 for buildings and personal property. The annual premium paid for the period of January 1, 2007 to January 1, 2008 was \$100,124.

## **Managed Care Risk Contract**

The Authority has established an Internal Service Fund for risk financing related to the risk of increases in costs above the total general fund authorization due to increases in demand (increases in admissions and/or length of stay) for State Facility inpatient care or increases in State Facility inpatient rates.

## **Economic Dependency**

Revenues paid either directly or indirectly by the Michigan Department of Community Health represent over 90% of the Authority's total revenues.

# ***REQUIRED SUPPLEMENTAL INFORMATION***

## ***BUDGETARY COMPARISON SCHEDULES***



WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Budgeted Amounts			Variances Between Actual and Final Budget
	Original	Final	Actual	
<b>Revenues</b>				
State grants				
Department of community health contract	\$3,259,354	\$3,047,139	\$3,015,126	(\$32,013)
Adult benefit waiver	269,424	269,424	250,514	(18,910)
MI child	12,863	12,863	10,167	(2,696)
Title XX	-	-	4,047	4,047
RICC	3,670	3,670	3,670	-
Supportive housing	46,027	46,027	53,272	7,245
Emergency shelter	8,000	8,000	3,862	(4,138)
Grants - categorical	75,068	75,068	75,914	846
Grants - other	66,490	66,490	67,239	749
Total state grants	3,740,896	3,528,681	3,483,812	(44,869)
Federal grants				
Wraparound grant	75,000	75,000	75,000	-
Block grant - DBT	56,250	56,250	56,250	(0)
Strong families / safe children	48,300	27,615	29,960	2,345
Block Grant - Family Enrichment	75,000	75,000	75,000	-
PAS / ARR grant	78,917	78,917	90,361	11,444
Total federal grants	333,467	312,782	326,571	13,789
Contributions - local units				
County appropriations	325,000	325,000	325,000	0
Charges for services				
Medicaid - subcontract with North Central CMH	11,900,000	11,983,000	11,538,834	(444,166)
Medicaid - other	110,292	110,292	103,206	(7,086)
Client and third party pay	180,231	260,231	209,055	(51,176)
Total charges for services	12,190,523	12,353,523	11,851,094	(502,429)
Interest and rents				
Interest	284,483	334,482	344,557	10,075
Other revenue				
Other	201,152	181,154	188,913	7,759
Total revenues	17,075,521	17,035,622	16,519,948	(515,674)

WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Budgeted Amounts			Variances Between Actual and Final Budget
	Original	Final	Actual	
<b>Expenditures</b>				
Health & welfare - mental health				
Personnel costs	\$9,222,673	\$9,037,673	\$8,730,546	\$307,127
Operating expenditures	8,036,287	7,997,950	7,398,349	599,601
Capital outlay	466,000	301,000	259,534	41,466
Debt payments - principal	9,537	9,537	9,156	381
Debt payments - interest	12,721	12,721	13,103	(382)
 Total expenditures	 17,747,218	 17,358,881	 16,410,688	 641,066
 Revenues over (under) expenditures	 (671,697)	 (323,259)	 109,260	 125,392
 Other financing sources (uses)				
Proceeds from sale of assets			30,900	30,900
Transfers in from internal service fund			318,069	318,069
 Excess of revenues and other sources over (under) expenditures and other uses	 - -	 - -	 458,229	 474,361
 Fund balance, beginning of year	 -	 -	 4,498,640	 4,498,640
 Prior period adjustment	 -	 -	 (16,209)	 (16,209)
 Fund balance, end of year	 \$0	 \$0	 \$4,940,661	 \$4,956,793

## ***OTHER SUPPLEMENTAL INFORMATION***



WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM  
STATEMENT OF PERSONNEL EXPENDITURES  
FOR THE YEAR ENDING SEPTEMBER 30, 2007 AND 2006

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Governmental Fund Types

	<u>General Fund</u>	
	<u>2007</u>	<u>2006</u>
<b>Personnel expenditures</b>		
Salaries and wages	\$6,221,172	\$5,591,942
Fringe benefits	<u>2,509,374</u>	<u>2,209,675</u>
Total personnel expenditures	<u><u>\$8,730,546</u></u>	<u><u>\$7,801,617</u></u>

WEST MICHIGAN COMMUNITY MENTAL HEALTH SYSTEM  
STATEMENT OF OPERATING EXPENDITURES  
FOR THE YEAR ENDING SEPTEMBER 30, 2007 AND 2006

<u>Governmental Fund Types</u>		
	<u>General Fund</u>	
	<u>2007</u>	<u>2006</u>
<b>Operating expenditures</b>		
Supplies	\$188,838	\$151,515
Building rent	98,745	217,170
Utilities	188,803	157,473
Repairs and maintenance	243,605	248,454
Insurance	138,145	156,119
Marketing / membership	74,129	45,486
Professional contracts	541,800	563,439
Contractual services	4,056,560	3,751,771
Other contractual	107,991	419,701
Board expenses	13,859	8,722
Consumer panel	10,314	5,132
Travel and conferences	265,085	246,703
Client transportation	111,347	99,344
Client and other wages	63,937	49,334
Client support	72,124	59,457
State provided services	1,031,956	1,015,102
Capital outlay (under \$5,000)	98,528	280,214
Miscellaneous	81,346	55,954
Wraparound and respite	11,237	27,802
	<u>11,237</u>	<u>27,802</u>
Total operating expenditures	<u>\$7,398,349</u>	<u>\$7,558,892</u>



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

West Michigan Community Mental Health System  
Ludington, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of West Michigan Community Mental Health System (the Authority) as of and for the year ended September 30, 2007, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated February 21, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiency described as 2007-1 in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.



A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated February 21, 2008.

This report is intended solely for the information and use of the audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.



Roslund, Prestage & Company, P.C.  
Certified Public Accountants

February 21, 2008

## **West Michigan Community Mental Health System Schedule of Findings and Responses**

### **Finding 2007-1**

#### Finding considered a significant deficiency

Effective for the year ended September 30, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

The annual financial statements for the year ended September 30, 2007, required relatively few audit adjustments, most of which the staff were aware needed to be recorded. The staff of the Authority does understand all information included in the annual financial statements; however, we assist in preparing the footnotes to the annual financial statements. We do not recommend any changes to this situation at this time and communicate this as required by professional standards. We believe this meets the definition of a significant deficiency as defined in Statement on Auditing Standards #112.

#### Client Response

We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.



## MANAGEMENT LETTER

Board of Directors  
West Michigan Community Mental Health System  
Ludington, Michigan

In planning and performing our audit of the financial statements for West Michigan Community Mental Health System for the fiscal year ended September 30, 2007, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated February 21, 2008 on the financial statements of West Michigan Community Mental Health System.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

*Roslund, Prestage & Company, P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

February 21, 2008

## **STATUS OF PRIOR YEAR RECOMMENDATIONS**

During the audit we were pleased to note that the recommendations identified in the management letter from the prior year had been implemented. We commend you on your efforts to strengthen internal controls and operating efficiencies.

## **CURRENT YEAR COMMENTS AND RECOMMENDATIONS**

### **GASB Statement No. 45**

Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was approved by the GASB in June of 2005. Other postemployment benefits are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they stop working. They include all postemployment healthcare benefits and any other type of benefits that are provided separately from a pension plan.

The basic premise of GASB 45 is that other postemployment benefits are earned and should be recognized when the employee provides services, just like wages and compensated absences.

We recommend the Authority consider the effects of GASB 45 on any current or future postemployment benefits packages. The effective date for the Authority to implement this new standard is for the fiscal year ending September, 2010. However, earlier application is encouraged by the GASB.

### **Credit Card Policy**

Governmental units in Michigan are required to adopt, by Board resolution, a written policy regarding credit card use that is in compliance with Public Act 266 of 1995. West Michigan Community Mental Health System has a credit card policy in place that meets some, but not all, of the requirements.

We have provided management a copy of Letter No. 2-96 from the Department of Treasury that outlines the requirements of Public Act 266 of 1995. We recommend that the credit card policy be reviewed and amended, as necessary, to include all the requirements as noted in the letter.

West Michigan Community Mental Health System  
Management Letter

**Budget**

Each year a budget is adopted and periodically amended, if necessary. This process is formally documented in the minutes. The minutes, however, do not specifically refer to which budget was adopted.

We recommend that the minutes specifically refer to the following when adopting or amending the budget:

- total revenues
- total expenditures
- increase (or decrease) to fund balance
- date of the budget document presented for adoption